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October 18, 2005

AGENDA ITEM 5

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Proposed Amendments to 2006 CCPOA Health Benefits Plan
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** To be presented orally
- IV. ANALYSIS:**

Background

- On June 15, 2005, the CalPERS Board of Administration approved the 2006 rates and benefit changes for the California Correctional Peace Officers' Association (CCPOA) Benefit Trust (Trust). These approved rates were then incorporated into information materials for this year's Open Enrollment period which took place from September 15 to October 14, 2005.
- On August 9, 2005, CalPERS staff informed CCPOA, in a letter to CCPOA Trust Administrator Gerrit Buddingh, that because CalPERS was not the sponsor of the health plan provided by CCPOA, we could not include CCPOA's association plan within our application for the Medicare Part D employer subsidy. We also indicated that CalPERS could apply for the employer subsidy on behalf of the State of California, which is the sponsor of the CCPOA plan, if authorized by the Department of Personnel Administration (DPA) to do so.
- In a September 2, 2005, letter to DPA, CCPOA informed the State that it had elected the benefit enhancement option under the Medicare Modernization Act (MMA), effective January 1, 2006, for Medicare-eligible members. This meant that CCPOA would modify its 2006 Medicare coverage so that Medicare would be the primary payor for prescription drug coverage and CCPOA the secondary payor. CCPOA Medicare plan members would be required to enroll in Medicare Part D through their carrier's (Blue Shield) Prescription Drug Plan (PDP). Otherwise the CCPOA Medicare plan's prescription drug benefits would not change. As a result of this change, CCPOA informed DPA that its 2006 Medicare plan rates would be reduced.

- On September 14, 2005, CCPOA's current Trust Administrator, Michael Smalley, delivered new proposed 2006 Medicare plan rates for CCPOA to CalPERS. The previously approved Basic plan rates were unchanged, but the new Medicare rates were reduced as follows:

CCPOA Medicare Plan Rates				
Board Approved for 2006			New CCPOA Proposal for 2006	
	North	South	North	South
Single	\$268.50	\$268.50	\$218.50	\$218.50
2-party	\$537.00	\$537.00	\$437.00	\$437.00
Family	\$794.46	\$750.07	\$694.46	\$650.07

- On October 5, 2005, CalPERS health program and legal staff met with the CCPOA Trust Administrator and CCPOA's benefits consultant to discuss the implications of their Medicare plan change, including concern about the potential impact of AB 587, which was signed by the Governor that same day, following this meeting. This CalPERS-sponsored legislation specified that any CalPERS members enrolled in a PDP, with the exception of members enrolled in Kaiser's Medicare Advantage plan, would not be able to participate in the CalPERS health program.

Analysis

CCPOA's Rationale for Medicare Plan Rate Change

CCPOA decided to make this change after receiving notification from CalPERS and DPA that the State of California, not CalPERS, would be considered the plan sponsor of CCPOA's health benefit plans. This notification occurred after the Board approved CCPOA's 2006 rates at its June 15, 2005, meeting.

CCPOA is an ERISA Trust, and the Trust's Board of Directors determines how the Trust is operated. The Centers for Medicare and Medicaid Services (CMS) only recently finalized its Medicare Part D regulations, so CCPOA staff did not have the information necessary to present a complete set of options for 2006 to the Trustees until September. The Trust then decided that pursuing the subsidy option was not a cost-effective action given the small number of current Medicare plan enrollees (172 as of September 1, 2005).

Due to the State's retiree contribution for health benefits, the CCPOA Medicare plan rate adjustment accomplishes a result similar to the employer's receipt of the subsidy. The employer, the State of California, will see an immediate retiree contribution reduction as a result of the reduction in the CCPOA Medicare rates. The rates proposed by CCPOA are lower than the upper limits of the current employer contribution as determined by the 100/90 formula.

In collaboration with CalPERS and Blue Shield, CCPOA intends to educate the retiree participants regarding the benefits of this change.

Administrative Details

CCPOA and Blue Shield explained how the enhanced benefit under Part D will be administered for CCPOA's Medicare plan members:

- CCPOA Medicare plan members will have the same prescription drug benefits previously approved by the CalPERS Board at the June 2005 meeting. Although members will enroll in an individual Blue Shield PDP plan, there will be no change to the pharmacy network, prescription drug co-payments, or the formulary. In terms of using the CCPOA prescription drug benefits, this change will be transparent to the CCPOA Medicare plan members.
- CCPOA will require Medicare-eligible members to enroll in Part D through Blue Shield via a paper application (to ensure CMS-required information is collected). Medicare-eligible members who do not enroll in Medicare Part D will not be able to enroll in the CCPOA health plan.
- CCPOA and Blue Shield will prepare all necessary member notification regarding this change. Both CCPOA and Blue Shield will have trained staff available to respond to member questions about this change.
- CCPOA has indicated it will reimburse CalPERS for any administrative costs related to holding a special enrollment period after the end of this year's Open Enrollment period. We expect these costs to be minimal.

Impact of AB 587

Per the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 and corresponding CMS Medicare Part D regulations, the employer subsidy is not available for any Medicare-eligible members who enroll in a PDP.

CalPERS sponsored AB 587 to maximize participation in the subsidy program, and the Board approved staff's recommendation to sponsor this bill at its April 2005 meeting.

The bill was enrolled on September 6, 2005, and signed by the Governor on October 5, 2005. As a result, enrollment in the CalPERS health program will be restricted to Medicare-eligible members who do not enroll in an individual Medicare Part D PDP. (Kaiser members are exempted from AB 587's provisions since as members of a Managed Medicare plan, they are automatically enrolled in Part D.)

CalPERS intent in sponsoring AB 587 was to maximize the amount CalPERS would collect pursuant to the subsidy and to prevent issues that could occur in attempting to coordinate benefits with members who enrolled in a separate PDP. Only after the bill was enrolled did we become aware of CCPOA's decision to require their Medicare members enroll in an individual PDP.

Recommendation

Staff continues to analyze this proposal, particularly in view of the enactment of AB 587. Our recommendation will be presented orally at the Committee meeting.

V. STRATEGIC PLAN:

This item supports CalPERS Strategic Plan, Goal III: "Design, develop and administer benefits programs and business processes that are innovative, effective, efficient, and valued by our members, employers and stakeholders."

VI. RESULTS/COSTS:

The CalPERS costs associated with this item are not included in the annual budget of the Health Benefits Branch.

Staff is available to respond to any questions.

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